

Message Text

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C O N F I D E N T I A L BANGKOK 1569

LIMDIS

E.O. 11652: GDS

TAGS: EAIR, TH, EI

SUBJ: CIVAIR: AIR SIAM: BANKRUPTCY IS A POSSIBILITY

REF: A) BANGKOK 569 B) BANGKOK 630 (NOTAL) C) DUBLIN 115
(NOTAL D) COLOMBO 3832

1. AIR SIAM, UNDER GREAT FINANCIAL STRAIN FOR MANY MONTHS, IS SUFFERING SERIOUS REVENUE LOSSES AS RESULT UK PROHIBITION ON CARRIAGE OF FIFTH FREEEOM TRAFFIC ON HONG KONG-TOKYO SECTOR, AND MAY WELL BE FORCED TO HALT OPERATIONS IN NEXT TWO TO SIX MONTHS. IT APPEARS ALMOST CERTAIN THAT "FLEET" WILL BE REDUCED TO SINGLE, LEASED DC-10 BY END OF MARCH.

2. FINANCIAL COLLAPSE COULD HAVE IMPORTANT IMPLICATIONS FOR MCDONNELL-DOUGLAS AND CONTI ENTAL WHO HAVE LEASE AND MAINTENANCE CONTRACTS WITH AIR SIAM FOR DC-10, FOR AMERICAN AIRLINES WHICH PROVIDES CATERING SERVICES IN U.S., AND POSSIBLY OTHERS. AIR SIAM'S DEMISE WOULD, OF COURSE, BE WELCOMED BY PAN AMERICAN, AS WELL AS BY THAI INTERNATIONAL.

3. AIR SIAM IS EXERTING CONSIDERABLE PRESSURE ON
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GOVERNMENT TO OBTAIN RELIEF, EITHER TROUGH REMOVAL OF

FIFTH FREEDOM BAN OR, ALTERNATIVELY, ROUTE SWAP AT EXPENSE OF THAI INTERNATIONAL (REFS A AND B) BUT WE HAVE NOT BEEN ABLE TO OBTAIN ANY FIRM INFORMATION AS TO LINE OF ACTION GOVERNMENT IS LIKELY TO ADOPT. OUR BEST SOURCE IN MINISTRY OF COMMUNICATIONS WOULD CONFIDE ONLY THAT BOTH FIFTH FREEDOM AND ROUTE SWAP MATTERS ARE BEING HANDLED, WITHOUT REFERENCE TO THE STAFF, BY THE MINISTER OF COMMUNICATIONS AND THE PRIME MINISTER. WE KNOW, HOWEVER, THAT ASA SARASIN, DIRECTOR GENERAL OF ECONOMIC AFFAIRS IN THE MFA, HAS BEEN TIED UP FOR SOME DAYS IN DISCUSSIONS AT THE MINISTRY OF COMMUNICATIONS, PRESUMABLY ON THESE SAME PROBLEMS.

4. IN WAY OF LOCAL DEVELOPMENTS, WE HAVE IT ON GOOD AUTHORITY THAT THE ADVERTISING FIRM WHICH HAS HANDLED AIR SIAM'S ACCOUNT FOR THREE YEARS HAS GONE UNDER RECENTLY AS A RESULT OF INABILITY TO COLLECT ABOUT \$300,000 (6 MILLION BAHT) DUE FROM AIR SIAM FOR NEWSPAPER AND OTHER ADVERTISING. THIS PROBABLY ACCOUNTS FOR FACT THAT AIR SIAM'S LONGTIME, FULL-PAGE NEWSPAPER ADVERTISEMENT VENDETTA WITH THAI INTERNATIONAL ENDED ABRUPTLY JAN 9, ALTHOUGH THAI INTERNATIONAL CONTINUED TO CHASTIZE AIR SIAM, ALSO IN FULL PAGE ADS, UNTIL JAN 18. ONE THAI INTER AD POSED INTERESTING QUESTION: HOW IS IT THAT AIR SIAM CONTINUES TO REPORT ANNUAL PROFITS (46.9 MILLION BAHT IN 1974) WHILE IN TESTIMONY IN CIVIL COURT ACTION BROUGHT BY DISGRUNTLED STOCKHOLDER, MANAGING DIRECTOR VIRACHAI VANNUKUN TOLD COURT ON SEPT. 8, 1975 THAT AIR SIAM COULD NOT PAY DIVIDENDS BECAUSE COMPANY WAS OPERATING AT A LOSS?

5. IN EXISTING CIRCUMSTANCES IT IS DIFFICULT TO FIND FACTS UNDER CLOUD OF RUMORS AND DOWNRIGHT LIES. FOR EXAMPLE, TOP AIR SIAM OFFICIAL TOLD VISITING GENERAL ELECTRIC ENGINE PLANT VP THIS WEEK THAT AIR SIAM (NOT AIR CEYLON) HAS SIGNED LEASE WITH PACIFIC SOUTH WEST AIRLINES (PSA) FOR USE OF LOCKHEED 1011 IN CONJUNCTION WITH AIR CEYLON, WHICH MAY OR MAY NOT BE TRUE (REF D). SAME OFFICIAL ADDED THAT AIR SIAM HAS SIGNED NEW TWO-YEAR LEASE FOR AER LINGUS 747, WHICH SEEMS TO FLY IN FACE OF KNOWN FACTS (REF C). TRUTH BAROMETER FOR GE MAN WAS AIR SIAM EXEC'S INSISTANCE, WITH STRAIGHT FACE, THAT AIR SIAM DOES NOT RPT NOT DISCOUNT IATA
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FARES. LOWER RANKING AIR SIAM OFFICIAL IN FINANCE DIVISION TOLD GE MAN AIRLINE WILL BE OUT OF BUSINESS IN MAXIMUM OF THREE MONTHS AT CURRENT RATE OF LOSSES.

6. TO DEGREE IT IS FEASIBLE, DEPARTMENT MAY WISH TO ADVISE U.S. FIRMS INVOLVED THAT IT WOULD APPEAR IMPRUDENT TO TAKE LONG OR LARGE CREDIT POSITIONS WITH AIRSIAM AT THIS TIME.
MASTERS

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